

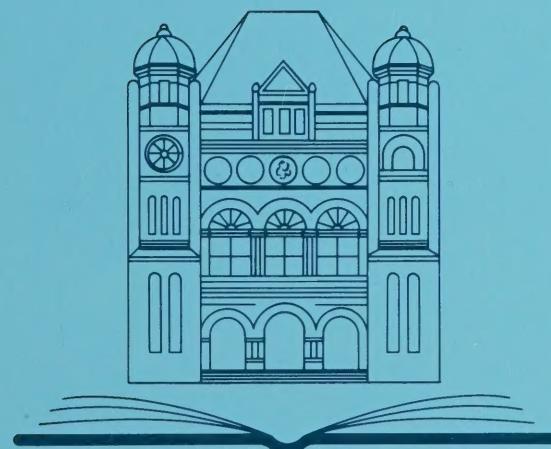
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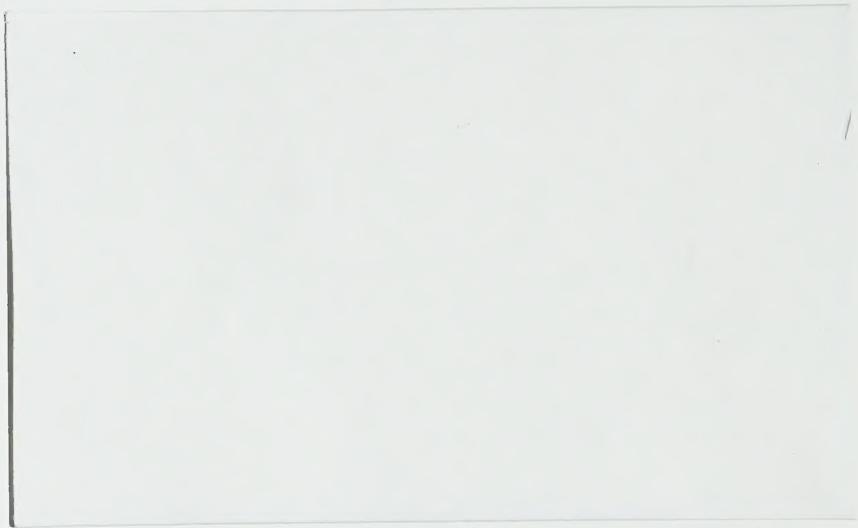
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DO ACTIVE LABOUR MARKET POLICIES WORK? *

Current Issue Paper #184



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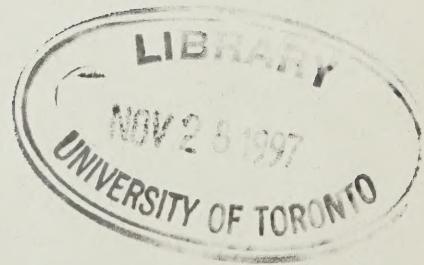
DO ACTIVE LABOUR MARKET POLICIES WORK? *

Current Issue Paper #184

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CONTENTS

INTRODUCTION	1
PUBLIC EMPLOYMENT SERVICES AND ADMINISTRATION	2
Evaluation	3
JOB SKILLS TRAINING	3
Evaluation	5
DIRECT JOB CREATION	6
Evaluation	7
EMPLOYER-BASED SUBSIDIES	8
Evaluation	9
CONCLUSION	10
NOTES	11



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INTRODUCTION

For the past thirty years, the wealthy industrial nations of the Organization for Economic Development and Co-operation (OECD)¹ have sought to improve the quality of their labour forces and thereby reduce unemployment levels through a variety of active labour market policies (ALMPs). The focus of ALMPs has changed over the years. In the 1960s, the bulk of ALMP expenditures were on direct job creation initiatives. By the 1990s, the lion's share of ALMP expenditures went to job skills training, job search assistance, and employer-based subsidies, with direct job creation making up only a minor portion of overall spending. The major cause for this change in policy focus was the recognition that short-term initiatives such as direct job creation measures could not combat the intransigent problem of structural unemployment which most OECD nations were experiencing by the 1970s and 1980s.

Have ALMPs succeeded in improving the quality of OECD nations' workforces and in reducing unemployment levels? Few attempts have been made to answer this question at the macro-economic level for two main reasons. First, it is very difficult to isolate the effects of ALMPs from other economic factors, including changes in the world economy and demographic shifts. Second, governments tend to react to rising unemployment levels with increased expenditures on ALMPs, which in turn disguises the effectiveness of the individual programmes themselves. The only conclusive macro-economic finding which has been identified is that nations which spend more on training and public employment services and administration during periods of positive GDP growth are more likely to experience higher levels of employment than nations which do not.²

At the micro-economic level, by contrast, there have been a number of studies over the past three decades which have measured the effectiveness of individual ALMPs by tracking the employment status of people who have participated in or are the targets of those policies. This Current Issue Paper relies upon these studies to examine how effective active labour market policies have been in reducing unemployment levels in OECD nations, with particular reference to Canada. It is organized according to the main components of active labour market policies identified by the OECD:

- public employment services and administration ;
- job skills training
- direct job creation; and
- employer-based subsidies.

The paper concludes by summarizing some general lessons about ALMP effectiveness.

For the purposes of this paper, ALMPs are considered distinct from skills training delivered through the public education system or through apprenticeship programmes.³

PUBLIC EMPLOYMENT SERVICES AND ADMINISTRATION

Public employment services and administration (PESA) serve to coordinate all elements of a government's ALMPs. There are three main PESA components: job information and brokerage; administration of income support; and the admission and administration of participants into ALMP programmes such as job training and direct job creation. In Canada, public employment services and administration are provided at the federal level through the Department of Human Resources, which was created in 1964 as the Department of Manpower and Immigration. Human Resources Canada, as the Department is called today, has responsibility for administering unemployment insurance, coordinating and delivering federal employment programmes and providing employment information to the public.

Prior to 1986, Ontario's ALMPs were largely based in job skills training and were administered by the Ministry of Skills and Training. In 1986, the provincial government announced the creation of the Ontario Training Strategy (OTS). The OTS was designed to give Ontarians a comprehensive training programme composed of a training consultation service, financial assistance for training and educational upgrading, trades updating, labour force access assistance (including allowances for child care) and a new Institute for Skills Training. In 1986, the Strategy was estimated to cost \$100 million per year.

During their term in office, the NDP organized many OTS services into the jobsLink programme in the former Ministry of Skills Development, including employment counseling and access assistance. In 1993, the Ontario Training and Adjustment Board (OTAB) became the primary body responsible for the province's training and adjustment, apprenticeship and labour force adjustment programmes.

Many of these responsibilities were rolled into the Ministry of Education and Training in 1996 after the new Conservative government disbanded OTAB. In 1996, the Conservative government also reorganized many jobsLink services into the new Ontario Works programme to be administered by the Ministry of Community and Social Services. The budget for the Ontario Works programme is estimated to be \$450 million over three years. (This estimate includes expenditures on the community placement component of Ontario Works).

Evaluation

While there are few studies on the employment effects of PESA in general, there is some American evidence to suggest that job search assistance does allow unemployment benefit recipients to find jobs anywhere from one-half of a week to four weeks faster than individuals who do not receive such assistance, depending upon the level of individual attention provided to clients.⁴ These studies also suggest that “the savings in UI payments plus the increase in tax receipts due to faster re-employment were more than enough to pay for programme costs. Savings to government averaged around two dollars for every dollar invested in targeted job search assistance.”⁵

To date, there have been few Canadian studies of the effects of PESA on employment and employability. One of the few is Employment and Immigration Canada’s (EIC) 1989 evaluation of its job information and brokerage programmes. EIC discovered that, in general, their information and brokerage programmes had no measurable effect on how efficiently or effectively vacant jobs were filled.⁶ The evaluation found that the Department’s job information and brokerage programmes did improve male job-seekers’ ability to find jobs under poor economic conditions.⁷

JOB SKILLS TRAINING

Job skills training is typically the largest category of a country’s ALMP expenditures. Most job skills training programmes are targeted broadly towards unemployed individuals, with particular focus on specific disadvantaged groups of unemployed. In the United States, for example, training programmes offered under the flagship *Job Training Partnership Act* provide classroom and on-the-job training (in addition to some basic job search assistance) to economically disadvantaged adults and out-of-school youths (aged 16 to 21).

In Canada, responsibility for job skills training is shared between federal and provincial governments. At the federal level, job skills training shifted focus in the early 1980s “towards enhancing the employability of workers instead of focusing on making unemployment more bearable or creating jobs through government action.”⁸ This shift was reflected in a new Conservative government training initiative called the Canadian Jobs Strategy which targeted groups with particularly intransigent unemployment. These included the long-term unemployed; youth and women; workers threatened by technological or market changes and needing support to retrain; and non-metropolitan communities needing comprehensive development support in order to deal with chronically-high unemployment or sudden dislocations such as major layoffs or closures. The programmes which made up the CJS were:

- Job Entry, designed to help new employees with the transition into the labour market;

- Job Development, designed specifically to help long-term unemployed Canadians;
- Skill Investment, designed to provide financial assistance to train employees who must adapt to changing technological and competitive conditions;
- Skill Shortages, designed to provide support for training in areas with a predictable shortage of skills;
- Innovations, designed to stimulate the search for creative solutions to Canada's labour market problems; and
- Community Futures, designed to help communities hit by major lay-offs and plant closures through the aid of self-employment support, business development loans, institutional training, relocation and diversification investments.

Most of these programmes are still in operation.

In its second term in office, the Mulroney government reformed CJS funding arrangements to make them more accountable to job changes in the private sector. Rather than fund all CJS training programmes directly from government coffers, the Conservatives created the Labour Force Development Strategy (LFDS) to divert ten percent of the Unemployment Insurance Fund (which is entirely funded by employers and employees under the LFDS as well) toward training. This new funding, which amounted to about \$800 million per year - half the federal government's expenditures on training at that time- are administered by a new Canadian Labour Force Development Board (CLFDB), to be composed of government, labour and business representatives. In 1994, the federal Minister of Labour extended the CLFDB's mandate for an additional five years.⁹

In Ontario, the bulk of provincial training initiatives since the Second World War have been administered through Ontario's network of community colleges and other specialized education institutions.¹⁰ Beginning in the mid-1980s, the Ontario government began to supplement the traditional system with additional training programmes aimed at youth and the long-term unemployed. In 1986, the Liberals launched the Ontario Training Strategy, a \$100 million comprehensive training programme composed of consultation services, financial assistance for training and upgrading, labour force access assistance (including child care allowances) and various specific training programmes.

In 1992, the NDP government enhanced job skills training provided outside the secondary and post-secondary education system. The centerpiece of the NDP's job skills training initiative was the jobsOntario Youth Fund, a \$180 million investment in job skills training, counseling and educational upgrading for young people. This Fund was eliminated by the Conservative government in 1995 and no further job training initiatives have been announced.

Evaluation

The most comprehensive evaluation of any job skills training was conducted in the late 1980s on programmes offered through the *American Job Training Partnership Act (JTPA)*. Over a two year period, a consultant examined whether out-of-school youth enrolled in JTPA programmes had better employment prospects and reduced crime or welfare receipt rates compared to youth who were not enrolled in JTPA programmes. In all, over 20,000 individuals at 16 locations were examined. The findings were not encouraging. According to the Department of Labour, “JTPA produced no statistically significant positive effects for out-of-school youths, either male or female.”¹¹ The study also found no difference in youth crime rates or welfare receipt rates between the two groups.¹²

With respect to JTPA programmes designed specifically for unemployed adults, the results were only slightly more positive. On the whole, adults who received JTPA training were only 2 to 3 percent more likely to find a job than adults who did not receive such training. This difference was not statistically significant. With respect to wage earnings, the study found that adults with JTPA training earned as much as 15% more than adults without training. It must be noted, however, that “four-fifths of the earnings gains for women and three-fifths of the earnings gains for men resulted from increases in hours worked, not wages.”¹³

Another study of JTPA training programmes summarized its overall effect as follows:

While JTPA Title II-A clients in general are disadvantaged, the impact appears greatest for individuals whose labour market problems are only moderately severe. The average impact was not significant for persons combining two or three specific disadvantages: previous welfare dependence, no high school diploma, and no recent work experience. The average impact for Hispanics was negative, though not significantly so; for Blacks, it was positive but insignificant.¹⁴

The Canadian Job Development training programme, which, like JTPA programmes, combined formal and on-the-job training, also produced marginal success results. A 1989 evaluation of 6,500 individuals found that women enrolled in the Job Development programme had a slightly - but not statistically significantly - better chance of being employed than women who had not enrolled.¹⁵ A woman’s chances of employment improved if she had previous work experience. Men’s chances of employment did not improve

with Job Development training - regardless of previous work experience.¹⁶ The federal Job Entry training programme, which targeted disadvantaged youth and adult women for classroom training and basic skills upgrading, had no demonstrable effect on improving trainees' employment prospects either.¹⁷

It is interesting to contrast the results of these relatively inexpensive job skills training programmes with those of the American Job Corps. Started in the 1970s, over 60,000 disadvantaged youth are now enrolled in the highly-intensive, residential (i.e., boarding school) programme every year.¹⁸ Young people receive basic education, vocational skills and a wide range of supportive services such as counseling and guidance. Because of its intensive services and residential requirements, the Job Corps initiative is also expensive, about \$15,000 per student per year. This compares with JTPA programmes which cost about \$2,800 per student per year.

Job Corps programme results have generally been positive. In 1978, 56% of Job Corps graduates found work and 15% continued on with their education. In 1993, 59.9% of graduates found work and 10.5% continued on with their education.¹⁹ In the long term, Job Corps graduates worked on average 3 weeks more per year than comparison group individuals.²⁰

DIRECT JOB CREATION

Direct job creation typically includes both public and non-profit sector-targeted creation initiatives.²¹ In Canada, federal job creation initiatives date back to the 1930s when numerous public works programmes were designed to alleviate the high rate of unemployment caused by the Depression. Direct job creation became popular again in the early 1960s when most OECD governments realized that full employment would never be achieved. In Canada, the federal Department of Manpower and Immigration launched a number of programmes in its first few years of existence, including the Local Initiatives Programme, the Local Employment Assistance Programme, the Company of Young Canadians and the Opportunities for Youth. All four programmes were designed to create jobs either by paying for salaries outright or by providing subsidies to the private sector for new jobs created.

By the mid-1970s and early 1980s, the value of direct job creation (known as supply-side job creation) was called into question as unemployment rates not only failed to fall but actually achieved new heights. Although a few federal direct job creation programmes remained in existence over the course of the 1980s and 1990s, most were aimed at providing youth with summer employment opportunities.

The latest federal job creation initiative was announced by the Liberal government in 1993, in response to the following election promise:

Canadians need jobs now, and strong infrastructure is essential for economic growth and livable communities. A Liberal government will join with the provinces and municipalities in a shared-cost, two-year, \$6 billion infrastructure programme, to upgrade transportation and local services. We will also provide more loans through the Residential Rehabilitation Assistance Programme to renovate older homes.²²

A second direct job creation initiative was launched in 1994. Called the Canadian Youth Service Corps, it was designed to "teach young people work skills and provide them with valuable experience by engaging them in social and environmental programmes that will improve the quality of life in communities across Canada."²³ Over 1,200 out-of-school and out-of-work youth are currently employed in Corps-funded projects.

While the Ontario government was also engaged in direct job creation as far back as the 1930s, the bulk of provincial ALMP spending in the thirty years following the Second World War went to job training. Under the NDP, however, three direct job creation initiatives were launched. The first was the jobsOntario Capital Fund, a \$2.32 billion programme (spent over five years) designed to support the construction of roads, hospitals, schools, homes for the aged, universities and municipalities. The second was the jobsOntario Homes Fund, a \$200 million programme designed to support the construction of 20,000 new non-profit housing units. The third was the jobsOntario Youth Fund, part of \$180 million used to create summer jobs for young people still in school.

While the Conservative government elected in 1995 canceled most of the jobsOntario direct job creation initiatives, it did announce in 1996 that it would spend \$57 million to create 29,000 summer jobs for young people.

Evaluation

Most research on direct job creation initiatives shows that they are highly successful in creating jobs - at least in the short term, but relatively little information exists on whether they reduce unemployment in the medium- to long-term. Three studies of employment patterns of people working in short-term public works programmes in Germany, Finland and the Netherlands found that most people were not able to find medium- to longer-term employment after the public works programme ended. It is interesting to note that 15 percent of the jobs created through the Dutch public works programme displaced existing permanent jobs.

The following table describes the number of jobs created through jobsOntario direct job creation programmes:

Programme	1992-93	1993-94	1994-95
jobsOntario Capital	8,400 full-time	9,800 full-time	13,000 full-time
jobsOntario Youth	9,500 summer jobs	10,000 summer jobs	23,000 summer jobs
jobsOntario Homes	N/A	2,850	N/A

Source: Ontario. Ministry of Finance, *Ontario Budget* (Toronto: The Ministry, various years).

The Ministry of Education and Training has not evaluated whether jobs created through these various jobsOntario programmes resulted in an increase in medium- to long-term employment in the province.

EMPLOYER-BASED SUBSIDIES

Some ALMPs aim to assist hard-to-employ individuals by offering employers subsidies to hire them. One of the most renowned is the Australian JOBSTART programme, which provides access to employment for jobseekers who have experienced long periods of unemployment or who face other access disadvantages. Under the programme, employers receive subsidy payments for set periods of up to 20 weeks. Subsidy rates vary according to age, length of unemployment and other disadvantages. JOBSTART requires that the subsidized position be maintained by the employer for at least three months after the expiration of the subsidy. Employers who maintain the position for more than a year are awarded a A\$500 bonus.

One of the first employer-based subsidies launched in Ontario was the 1985 Futures Programme, a \$135 million programme aimed at helping hard-to-employ young people find work by funding one year of employment upon the completion of grade 12. In 1992, the NDP government announced the creation of the jobsOntario Training Fund, a \$1.1 billion programme (spent over five years) designed to support a one-year training credit of up to \$10,000 to an employer for each eligible unemployed worker hired for a new job. At least half the credit had to have been used to train the new employee, and the other half could have been used to train other workers. Part of the fund was also used to provide child care to individuals returning to the workforce. In addition to the jobsOntario Training Fund, the NDP also created the jobsOntario Community Action Fund, a \$300 million commitment (spent over three years) to provide loan guarantees to local enterprises for capital projects that promote community economic development. These Funds have not been renewed by the current Conservative government.

Evaluation

Most evaluations conclude that subsidies offered to employers to hire hard-to-employ individuals do not create significant increases in long-term employment. For example, only 25 percent of Australian JOBSTART programme participants had unsubsidized full-time or part-time jobs three months after the JOBSTART subsidy expired.²⁴ OECD reviews of similar Irish, Australian and Dutch programmes found that about 30 percent of participants gained long-term employment through short-term employer subsidy programmes.²⁵ These studies also found that subsidies to employers had the effect of displacing existing workers in favour of subsidized workers.²⁶ An evaluation of the American Targeted Jobs Tax Credit, which subsidizes employers of disadvantaged urban populations for up to 50 percent of wages for up to two years, confirmed that employer-subsidies created long-term employment only if the subsidy was maintained long-term.²⁷

One of the few evaluations of Ontario employer-based initiatives was conducted by the Provincial Auditor in 1994. The Auditor assessed how effective the jobsOntario Training programme was in meeting its stated objective of creating 100,000 new jobs as well as the economic efficiency of the programme's delivery system. In the course of his assessment, the Provincial Auditor observed that as of 31 March 1994, "job placements [under the Training Fund] totaled about 33,000. At the current rate of placement, the announced target of up to 100,000 job placements by March 31, 1995 may not be met."²⁸ Part of the problem lay in the fact that the programme was planned to take advantage of an upswing in the economy which did not materialize as soon as expected. A larger problem was identified by the Auditor as follows:

Pressure to have the programme running promptly at the local level led to the decision to establish a diverse network of brokers across the province. While the selection process was well thought out and involved both community and government consultation processes, many brokers had not had previous experience with both training and employment programmes, but were selected because they were considered the best organizations to deliver the programme. Several had also not had previous dealings with the Ministry, or with their lead broker in the case of sub-brokers, and new accountability relationships had to be formed. These took longer to form than originally anticipated, particularly for larger brokers.²⁹

No further assessment of whether programme goals were met was carried out because, according to the Provincial Auditor, "it was too early in the programme to verify reported results and savings."³⁰ The Ministry of Education and Training currently believes that the total number of jobs created by the jobsOntario Training Fund initiative is around 65,000.³¹

CONCLUSION

This paper has shown that at a micro-economic level ALMPs are only mildly successful at increasing employment - except when the rate of expenditure-per-person is quite high. For example, public employment services and administration (PESA) in Canada and the United States marginally improve job-seekers' ability to find work. As American experience suggests, however, the effectiveness of PESA is heavily dependent upon the level of resources - both human and financial - which are dedicated to job-seekers. Similar conclusions can be made about job skills training: Both Canadian and American evidence suggests that training programmes aimed at disadvantaged groups produce no significant increase in employment levels - except when the training programme dedicates a significant level of resources to participants, as the American Jobs Corps residential training programme does. Evaluations of employer-based subsidies are not much brighter. International evidence suggests that while subsidies can increase short-term employment levels, long-term gains are at best negligible and at worst negative. The relative success of various direct job creation initiatives, at least in the short term, seems to confirm that ALMPs can increase employment levels significantly only when a high level of resources can be dedicated to participants.³²

The level of expenditures required to make most ALMPs successful highlights a number of critical policy questions. For example, would similar expenditures on the public education system improve the quality of a nation's labour force and reduce its unemployment level? What would be the effect of similar expenditures upon child care or other parental support services? What about similar expenditures on health programmes and institutions? Answers to these kinds of questions should be part of any policy analysis of the role of ALMPs in the future.

NOTES

¹ The Organization for Economic Co-operation and Development (OECD) was established in 1960 to help its 24 Member states achieve sustainable economic growth and employment, contribute to sound economic expansion, and contribute to the expansion of world trade on a multilateral, non-discriminatory basis.

² For further discussion, see OECD, *OECD Employment Outlook*, (Paris: OECD, 1993), pp. 47-8. See, as well, David Grubb, "Direct and Indirect Effects of Active Labour Market Policies in OECD Countries," in Ray Burrell (ed.), *The UK Labour Market* (Cambridge: Cambridge University Press, 1994).

³ For an analysis of the effectiveness of the formal education process in terms of creating employment, increasing wages, etc., see, in general, OECD, *The OECD Jobs Study: Evidence and Explanations* (Paris: The OECD, 1994), Chapter 7.

⁴ Bruce Meyer, "Policy Lessons from the U.S. Unemployment Insurance Experiments," National Bureau of Economic Research Working Paper #4197, 1992.

⁵ United States, Department of Labor, Office of the Chief Economist, *What's Working (and what's not)* (Washington: The Department, 1995), p. 48.

⁶ Canada, Employment and Immigration Canada, *Evaluation of the National Employment Service: An Overview Report* (Hull: EIC, 1989).

⁷ Ibid.

⁸ Canada, The Senate, the Sub-committee on Training and Employment of the Standing Committee on Social Affairs, Science and Technology, *In Training, Only Work Works* (Ottawa: The Committee, 1987).

⁹ Canada, Canadian Labour Force Development Board, *Annual Report, 1995-96* (Ottawa: The Board, 1996).

¹⁰ Ontario, Lieutenant Governor's Office, *Speech from the Throne* (Toronto: Queen's Printer, 1983), p. 3.

¹¹ U.S. Department of Labor, *What's Working (and what's not)*, p. 13.

¹² Ibid.

¹³ Ibid., p. 30.

¹⁴ OECD, *Employment Outlook, 1993*, p. 59.

¹⁵ On this point, the OECD cites Goss, Gilroy and Associates Ltd., *Evaluation of the Job Development Programme: Final Report* (Ottawa: Employment and Immigration Canada, 1989). This report is not available to the general public.

¹⁶ Ibid.

¹⁷ 1,300 respondents were contacted in this study. ABT Associates, *Evaluation of the Job Entry Programme: Final Report* (Ottawa: Employment and Immigration Canada, 1989), p. 125.

¹⁸ U.S. Department of Labour, *What's Working*, p. 14.

¹⁹ Ibid., p. 16.

²⁰ Ibid.

²¹ These definitions are taken from OECD, *Employment Outlook* (Paris: The OECD, 1993), pp. 53-62.

²² Liberal Party of Canada, *Creating Opportunity: The Liberal Plan for Canada* (Ottawa: The Party, 1993), p. 60.

²³ Ibid., p. 35.

²⁴ Australia, Department of Employment and Industrial Relations, *The Job Report*, vol. 1, no. 3 (Canberra: The Department, 1992), cited in Judith Sloan, "Some Policy Responses to Long-Term Unemployment," *Australian Economic Review*, #102 (1993).

²⁵ Ibid., p. 63. For additional information on the Australian experience, see, in general, Judith Sloan, "Employment Policies Don't Work," The Bert Kelly Lectures (Brisbane: Centre for Independent Studies, 1993).

²⁶ Ibid.

²⁷ See, in general, Robert Eisner, "Employer Approaches to reducing Unemployment," in Lee Bawden and Felicity Skidmore (eds.), *Rethinking Employment Policy* (Washington: The Urban Institute Press, 1989).

²⁸ Ontario. Office of the Provincial Auditor, *1994 Annual Report* (Toronto: Queen's Printer, 1994), p. 61-62.

²⁹ Ibid., p. 62.

³⁰ Ibid.

³¹ Telephone interview with Elizabeth Wagner, Team Leader, jobsOntario Training - Operations, Ministry of Education and Training, 10 April 1996.

³² See, in general, Melanie Hess, *Job Creation Measures* (Ottawa: Canadian Council on Social Development, 1994).

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